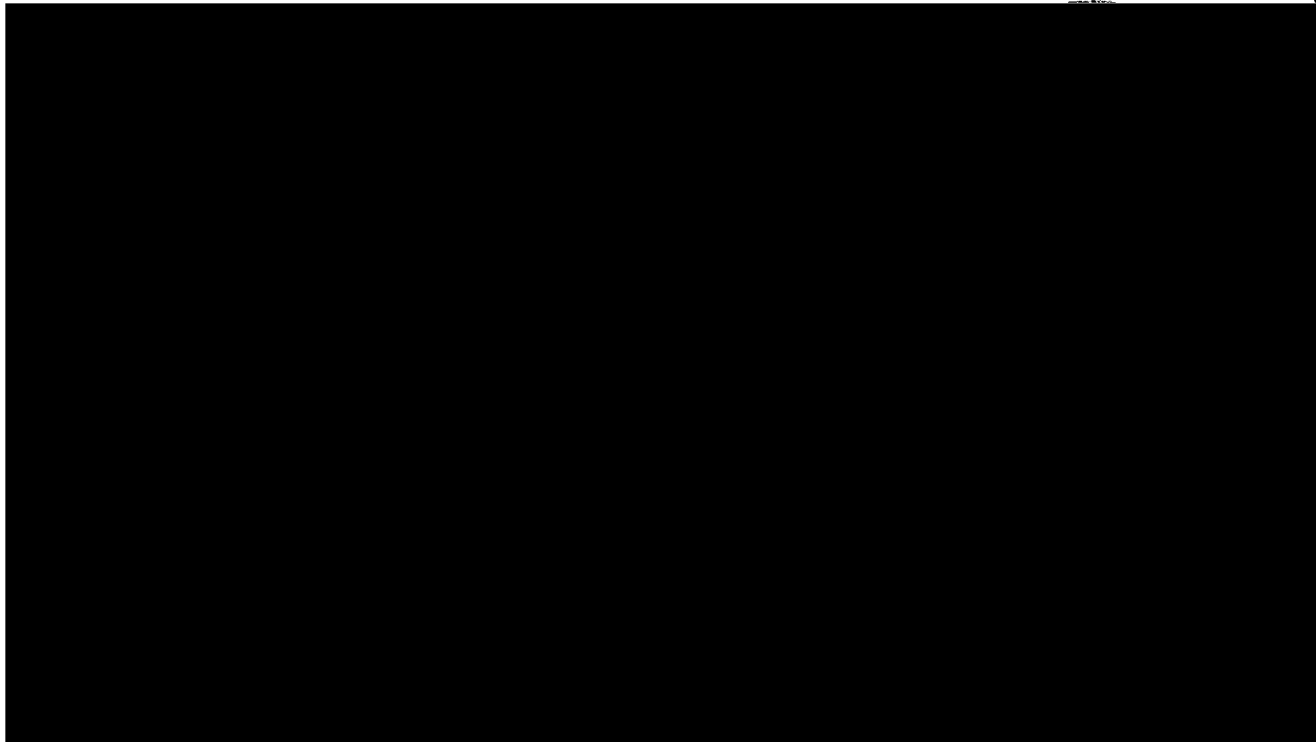


CIA

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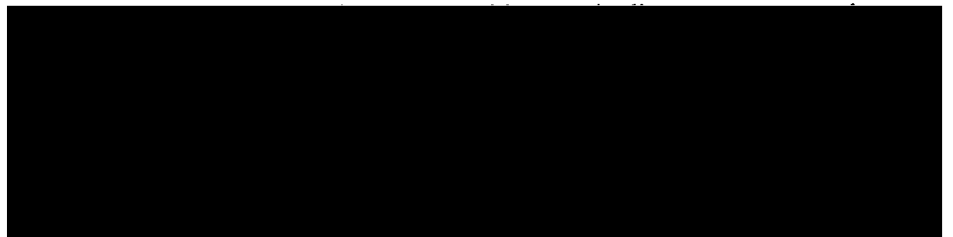
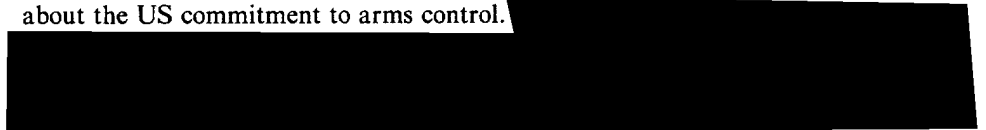
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Northeast Asia

Japan Gears Up for Disarmament Conference

Japanese political groups and the media are increasingly touting their support for disarmament as the Second UN Special Session on Disarmament approaches. An anti-American tone could develop, especially in view of the growing doubt in Japan about the US commitment to arms control.



### In Defense of the Yen

Contrary to recent press reports that Japan's actions have been purposely designed to undervalue the yen, Tokyo's short run policy is designed to inhibit yen depreciation. Defending the yen is consistent with Tokyo's primary economic goals of maintaining low inflation, encouraging domestic demand, and alleviating trade pressure. Unlike the mid-1970s, official intervention in foreign exchange markets has been modest, indicating authorities are smoothing out day-to-day fluctuations and not holding the yen at any particular peg point. [REDACTED]

So far this year, Bank of Japan intervention has been in support of the yen. In fact, Bank officials had hoped to lower the official discount rate to 4.75 percent to stimulate domestic activity but are holding off in the belief such a move would lead to further depreciation unless US interest rates also fall. The Finance Ministry also is asking Japanese insurance companies to delay foreign portfolio investments in order to slow the outflow of dollars. Nevertheless, since 1 January the yen has depreciated 6.4 percent against the dollar. [REDACTED]

[REDACTED]

[REDACTED]